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DEPARTMENT FOR EUR/RUS, EUR/UMB  
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Classified By: Economic Minister Counselor Eric T. Schultz, Reasons 1.4 (b,d).

11. (C) SUMMARY: In what many observers see as a sign of Russia's increasingly belligerent trade policies, Russian First Deputy PM Shuvalov announced September 1 that Russia would consider imposing restrictive trade measures on Ukraine now that Ukraine had acceded to the WTO. The GOR is considering a reduction in the number of Ukrainian goods subject to duty-free entry in Russia, the possible imposition of new tariffs, and a delay in lifting the import quotas on Ukrainian sugar and spirits for up to five years. In their conversations with the Ukrainian Embassy and with us, GOR officials denied any political motivation, insisting that Ukraine's WTO membership raised legitimate concerns for the GOR. END SUMMARY.

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Russia Looks to Remake Trading Regime with Ukraine  
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12. (C) On September 1, Russian First Deputy PM Shuvalov gave the Ministries of Economic Development, Industry and Trade, Agriculture, Finance and Foreign Affairs one week to develop measures to protect the Russian market from goods from Ukraine, in light of Ukraine's free trade regime with Russia and its May accession to the WTO (Ref B). Many Ukrainian goods now enter Russia duty free under the countries' 1993 bilateral free trade agreement, and the countries had previously agreed to permit unlimited imports of Ukrainian sugar starting in 2009 and of Ukrainian spirits as of 2010.

13. (C) On September 5, Econoff met with Embassy of Ukraine trade officer Vladislav Yegorov to discuss Shuvalov's announcement. Yegorov said that Russian officials had advised his embassy that the GOR was considering a number of potential measures affecting Ukrainian imports. The Russian officials had denied that they were seeking to nullify the 1993 Russia-Ukraine bilateral trade agreement, but did note that they wanted to expand the list of Ukrainian goods that would no longer be eligible for duty-free entry in Russia and would be subject to new tariffs. Russian officials had also noted they were also considering delaying the lifting of import quotas on Ukrainian sugar and spirits until 2013.

14. (C) According to Yegorov, GOR officials denied that the potential changes in the countries' trading regime were

politically motivated or connected with Ukraine's support of Georgia in its conflict with Russia. Instead, because Ukraine had recently joined the WTO, GOR officials argued that Russia had legitimate concerns about the negative economic consequences that Ukrainian imports could have on domestic industries and about the possibility that low quality goods from other WTO countries would transit Ukraine and enter Russia. (N.B. In a separate conversation with us, Russian MFA officials repeated the same argument regarding the need to revisit the trading regime with Ukraine now that it had become a WTO member.)

¶15. (C) Yegorov said that Ukrainian officials were expecting that Russia would target some of the biggest Ukrainian exports to Russia, including dairy products such as milk, cheese and butter; automotive and aviation parts and equipment; steel scrap, pipes and tubes; chemicals; and fertilizers. Yegorov said that the imposition of duties or other restrictions on the Ukrainian imports to Russia could have a significant economic impact on many domestic Ukrainian industries, including agriculture. With \$29.6 billion in two-way trade during 2007 and \$16.8 billion during the first half of 2008, Russia is far and away Ukraine's largest export market. Yegorov noted that many Ukrainian imports were less expensive than equivalent Russian-made goods, and some Russian ministries, including the Agriculture Ministry, had complained about the injury to domestic industries from competing Ukrainian products. Yegorov observed that GOR officials did not appear to be concerned about the potential inflationary impact that increased duties or other trade measures could have on downstream and consumer prices in Russia.

¶16. (C) Despite the official Russian denials of a political motivation, Yegorov told us that the timing of Shuvalov's September 1 announcement was "strange," given that Ukraine had been a WTO member since May (a point we made to the MFA officials). In his view, this suggested that the potential trade measures targeted at Ukraine were politically motivated and intended to punish Ukraine for its support of Georgia. Yegorov noted that Ukrainian Economic Minister Danilishin would discuss the issue with Russian Economic Development Minister Nabiullina during the September 10 meeting in Moscow of the Russia-Ukraine Trade Sub-Committee, which the two ministers chaired.

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Ukraine Unsure About Bilateral WTO Talks

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¶17. (C) On Russia's WTO accession process, Yegorov confirmed that Ukraine still had not asked for bilateral market access negotiations with Russia. He explained that Ukrainian officials were uncertain what specific commitments would be worth discussing with Russia during bilateral negotiations. Still, Yegorov noted that a major revision of the bilateral trading regime by Russia could strengthen calls in Kyiv to request market access talks as a part of Russia's accession. He added that the gas price that Russia charged Ukraine was a perennially sensitive issue, but that Ukrainian officials recognized it was a separate question from Russia's WTO entry. (COMMENT: Even if Ukraine were willing to separate energy issues from WTO negotiations, it would be impossible to ignore the importance of energy in bilateral relations.)

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GOR Officials Confirm Review of Ukrainian Imports

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¶18. (C) On September 9, Russian officials confirmed to us that the GOR was undertaking a comprehensive review of Russia's trading system with Ukraine and the 1993 bilateral free trade agreement between the two countries. Mikhail Cherekayev, head of the WTO Section in the Economic Development Ministry's Trade Negotiations Department, told us that the review was prompted by the large volume of trade with Ukraine and by Ukraine's accession to the WTO. The review had nothing to do with political considerations or the Georgia

conflict, according to Cherekayev.

¶19. (C) Cherekayev stated that the level of tariffs are too low on certain Ukrainian products, including dairy products such as milk, butter and cheese. In some cases, Ukrainian producers have undercut their Russian competitors' prices and taken market share. Thus, Russia needed to consider the possibility of protective trade measures against Ukrainian goods. Even so, Cherekayev felt that the majority of Ukrainian imports would remain subject to duty-free entry following the Russian review.

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COMMENT  
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¶10. (C) Russia has now raised in recent weeks trade issues with the United States, EU, Turkey and Ukraine (reftels), four of its major trading partners. It seems increasingly clear that Russia has written off any chance of a near-term WTO accession and is intent on registering its displeasure by increasing protection for domestic producers -- and if those countries supported Georgia, so much the better. The biggest losers in all of this are, of course, Russian consumers, who will be paying higher prices for lower quality goods.

BEYRLE